

Message Text

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TO USDEL SECRETARY IMMEDIATE

C O N F I D E N T I A L STATE 290147 TOSEC 310139

LIMDIS FOR THE SECRETARY FROM HARTMAN

E.O11652:GDS

TAGS:EFIN, PINT, FR, PO, UK

SUBJECT:BRIEFING MEMORANDUM: POLITICO-ECONOMIC REPORT
NO. 4 - FRANCE, PORTUGAL, THE UK, ITALY

FRANCE

-- UNEMPLOYMENT HAS AGAIN RISEN PAST THE ONE MILLION
MARK.

-- GISCARD HAS DIRECTED ATTENTION TO THE DETERIORATING
FRENCH BALANCE OF TRADE AND CALLED UPON ALL SECTORS OF
SOCIETY FOR GREATER DISCIPLINE.

-- PRIME MINISTER BARRE HAS NOT YET SHOWN RESULTS IN HIS
EFFORT TO REDUCE INFLATION, STILL RUNNING OVER 10 PERCENT
PER ANNUM. YET BARRE, IN A CONVERSATION WITH SENATOR
JAVITS, OPTIMISTICALLY NOTED THAT FRENCH RESERVES ARE
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ADEQUATE, CREDIT WORTHINESS OF FRANCE IS HIGH, AND THE

ECONOMY IS BASICALLY HEALTHY.

PORTUGAL

-- IF PARLIAMENT APPROVES THE PROPOSED BUDGET, THE 1977

BUDGET DEFICIT WILL BE 23 PER CENT LESS THAN THIS YEAR, IN REAL TERMS, THUS MEETING A KEY CONDITION SET FOR AN IMMEDIATE LOAN FROM THE US TREASURY'S EXCHANGE STABILIZATION FUND.

-- CONGRESSIONAL CONSULTATIONS ON THE FINANCIAL ASSISTANCE PACKAGE HAVE GONE WELL BUT RECENT PRESS STORIES ON THE SUBJECT HERE MAY HAVE PREJUDICED THE ABILITY OF SOARES TO OBTAIN PARLIAMENTARY APPROVAL, ESPECIALLY ON IMF ASPECTS. A TREASURY TEAM TO SUPPORT CARLUCCI'S FORMAL PRESENTATION OF THE PACKAGE TO THE GOP IS TO ARRIVE IN LISBON EARLY NEXT WEEK.

-- NOVEMBER 19 DECREE LAW ENDS AUTOMATIC DUES CHECK-OFF FOR UNIONS. THIS NEW STEP SHOULD LIMIT COMMUNIST-DOMINATED INTERSINDICAL FINANCIAL RESOURCES AND BOOST THE JOINT SOCIALIST-SOCIAL DEMOCRATIC EFFORT TO ESTABLISH STRONG DEMOCRATIC UNIONS PARALLEL TO INTERSINDICAL.

ITALY

-- THE ANDREOTTI GOVERNMENT HAS NOW WITHDRAWN ITS PROPOSAL TO APPLY THE FREEZE ON THE SCALA MOBILE TO ALL WAGE EARNERS, APPARENTLY AFTER HEAVY OPPOSITION EVEN FROM PARTS OF THE DC. THIS ELIMINATES MUCH OF THE LEVERAGE THE GOVERNMENT WAS APPLYING TO THE TALKS BETWEEN CONFINDUSTRIA AND THE LABOR UNIONS TO CUT WAGE COSTS. THESE TALKS CONTINUE WITH NO CLEAR LINE EMERGING.

-- IMF HAS REPORTEDLY REVISED UPWARD ITS ESTIMATE OF ITALIAN INFLATION IN 1977 TO 25 PERCENT. THE OFFICIAL ITALIAN ESTIMATE IS PRESENT 20 PERCENT.

-- PRESS REPORTS INDICATE GERMANY WILL NOT APPROVE THE CONFIDENTIAL

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EC LOAN REFUNDING THE ITALIAN REPAYMENT OF DOLLARS 487 MILLION TO THE UK IN EARLY DECEMBER UNTIL ITALY MEETS THE CONDITIONS BEING SET BY THE IMF.

-- THE ITALIAN EXTENSION OF THE AMNESTY FOR THE RETURN OF ILLEGALLY-EXPORTED CAPITAL MAY RESULT IN THE RETURN TO ITALY OF SEVERAL HUNDRED MILLION DOLLARS.

UK

-- THE CABINET MET NOVEMBER 23 AND 25 TO DISCUSS THE IMF TALKS. IT HAS BEEN TOUGH SLEDDING FOR CALLAGHAN AND HEALEY BUT SOME CUT IN THE BUDGET DEFICIT NOW SEEMS LIKELY.

-- THE PRESIDENT SPOKE TO SIMON PRIOR TO HIS VISIT TO LONDON THIS WEEKEND. HIS VISIT IS BEING LINKED IN THE BRITISH PRESS TO THE PROSPECT OF A "SAFETY NET" LOAN.

-- CALLAGHAN WARNED COMMONS THAT LIMITATIONS ON WAGE INCREASES WOULD BE NECESSARY INTO 1978. THE TUC IN TURN WARNED THAT TRADE UNION COOPERATION WOULD BE IN TROUBLE IF THE GOVERNMENT TRIED TO SQUEEZE THE ECONOMY TOO HARD.

-- AN NIESR FORECAST SEES NO NEED FOR CONTRACTIONARY FISCAL MEASURES IN 1977 AND 1978, BASED ON A PUBLIC SECTOR BORROWING REQUIREMENT ESTIMATE CONSIDERABLY LOWER THAN TREASURY ESTIMATES.

-- THE TENSION BETWEEN THE MINERS AND THE NATIONAL COAL BOARD IS STILL HIGH, BUT THERE IS A REASONABLY GOOD CHANCE A SOLUTION CAN BE REACHED WHICH WOULD PREVENT A STRIKE.

ROBINSON

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